



PSC NEWS

Missouri Public Service Commission

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FY-04-139

PSC DENIES UTILICORP UNITED RECOVERY OF MERGER ACQUISITION PREMIUM

Jefferson City (February 26, 2004)---The Missouri Public Service Commission has denied an original request filed by UtiliCorp United, Incorporated seeking to recover from St. Joseph Light & Power customers, through its rates, the acquisition premium it paid to purchase St. Joseph Light & Power. That acquisition premium was estimated at \$92 million.

On February 25, 2004, Aquila, Incorporated f/k/a UtiliCorp filed a statement of position in which it stated that it will not seek to recoup or recover through rates the acquisition premium or the merger savings or synergies in connection with the merger transaction in its pending rate cases or in any future rate cases before the Commission.

The acquisition premium issue was remanded to the Public Service Commission by the Missouri Supreme Court in October 2003. In its decision to remand the case to the Commission, the Missouri Supreme Court found that the Commission's original December 14, 2000, report and order authorizing the merger of UtiliCorp United, Incorporated and St. Joseph Light & Power Company was lawful, but not reasonable, because the Commission did not decide whether the inclusion of the acquisition premium in the Commission's cost analysis of the merger would make it detrimental to the public.

The Commission's order today addresses the remand issue and determines that UtiliCorp should not be allowed to recoup the acquisition premium from its ratepayers.

An acquisition premium is basically the difference between what a company paid for the assets of another company and the net book value of those assets.

The Commission has consistently applied the net original cost standard when placing a value on assets for purposes of establishing a utility's rates. The net original cost rule was developed in order to protect ratepayers from having to pay higher rates simply because ownership of utility plant has changed, without any actual change in the usefulness of the plant. The Commission's order states: "For many years, the Commission has used a net original cost standard to place a value on utility plant after a merger. That standard has proven to be fair to utilities as well as to ratepayers. There is no reason to vary from that standard in this case. The Commission concludes that UtiliCorp should not be allowed to recover any of the acquisition premium in its rates."

As part of its order in this matter, the Commission reaffirmed its December 14, 2000 report and order which authorized the merger of St. Joseph Light & Power and UtiliCorp.

NOTE: Aquila, Incorporated is formerly known as UtiliCorp United, Incorporated.

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